

29 May 1963

MEMORANDUM FOR: Deputy Director (Intelligence)

THROUGH : Assistant Director for Current Intelligence

SUBJECT : The US Trade Expansion Program at the GATT Conference

1. Prior to the adjournment of the GATT ministerial meeting in Geneva at midnight on 21 May, the US and the Common Market reached the agreement on trade and tariff policies which has been widely reported in the international press. By accepting a compromise not fully satisfactory to either, the two antagonists averted a clash which would almost certainly have shaken the Common Market, and with it, the prospects for an effective Atlantic partnership. The mutually acceptable formula was found, however, only after the eleventh-hour had passed, no one believes that the basic issues have been settled, and only the most optimistic feel any confidence that the success of the President's trade expansion program is already assured.

2. As indicated in my memo of 17 May, the critical issue at Geneva was the conflict between the US desire for a firm endorsement of an equal, linear percentage reduction in industrial tariffs and the EEC wish to combine a smaller reduction with harmonization of tariffs, by some such device as the "ecretelement" plan. The formula which finally emerged from the Geneva talks in effect combines the two. As stated in the communique, tariff negotiations shall be based on a plan for substantial, linear, and equal reductions with a bare minimum of exceptions. However, where there are "significant disparities" in tariff levels, the reductions will be based on "special rules of general and automatic application." These rules--as well as the general plan--will be worked out within the next two months by a trade negotiating committee which has been instructed to take into account as agreement that the words "significant disparities in tariff levels" is accepted to mean "meaningful in trade terms."

3. These curious arrangements can only be understood by reference to the respective US and Common Market positions both prior to and at the Geneva talks. Governor Herter was under strict Presidential instruction not "to deviate in any way from

the principle of equal linear cuts." By contrast, the EEC delegation--although authorized to endorse a "linear, automatic, and general" cut--was instructed to push for working party consideration of both the linear and "any other" proposals, including proposals for dealing with the "problem" caused by the disparity between the EEC and US tariff schedules. As seen by the EEC, a straight linear cut would leave the US with substantial protection on those items on which US tariffs are exceptionally high, while depriving the EEC of bargaining power to effect their reduction. As seen by the US, a low tariff may be as protective as a high one, and the significant criterion is the impact of both on the flow of trade.

4. To attempt to say at this date which side has had the better of the argument is pointless--the fact of the matter is that no one knows. The ministers endorsed the principle of an equal, linear cut in tariffs, qualified to a degree, however, as yet to be decided. It is the task of the trade negotiating committee both to devise the "special rules" for disparate tariffs and to decide the extent to which these rules should apply. Although US officials have said that the "ecrement" idea has been rejected, it is difficult to imagine any "general and automatic" rules which would not bear resemblance to the "ecrement" plan and require a greater and therefore unequal reduction of tariffs in the upper brackets. Moreover, while the US will seek to minimize the application of such rules, the EEC will try to maximize, and even though the US should succeed in focusing the argument on trade flow, there is room for disagreement whether disparities are "significant" in terms of past or some hypothetical future trade experience. In other words, all that has been decided is that there will be a general tariff cut of undetermined depth which will be equal, except in those cases where it is determined it shall be unequal.

5. Respecting other issues at the conference, it was agreed that non-tariff barriers to trade will be considered in the forthcoming negotiations--a knife which will cut both ways. Agreement was also reached that every effort should be made to increase the export opportunities of less-developed countries, but an "action program" to do this failed to win approval--largely because of the desire of the EEC and its associated states to retain their preferential ties. Respecting the agreement to include trade in agricultural products in the trade bargaining, the "rules" for this have not been decided and serious negotiations are unlikely until such time as the EEC has further developed its internal agricultural policies. In this respect, it is difficult to judge which is the gloomier augury for an orderly international


agricultural market--the negative outcome of the US wheat referendum last week or the statement of West Germany's agricultural minister that Bonn is "on principle" opposed to any reduction in its high support price for grains.

6. The bitter battle at Geneva is symptomatic in the economic sphere of the intra-Atlantic tensions which exist also at the political and military level, and it is an open question whether US tactics at the GATT meeting were well-calculated to ease them. It is of course easy to overlook the fact that competition is keen in the international market place, and tough bargaining may be the language that is understood. Moreover, there is a body of opinion which holds that it was and remains De Gaulle's objective to create an autarkic community, both economic and political. If so, Herter may be correct in claiming, as he does, that the US approach was "very helpful in reaching the result achieved." However, it is also easy to overlook the extent to which the image of the sharp Yankee trader has gained European acceptance. Other observers believe that US policy did not take adequately into account the political and economic realities within the EEC, that it was rigid and even "crude" (See London Economist, 25 May 1963, p. 760), and that US inflexibility nearly consolidated the EEC in support of the extreme French position. Moreover, in judging the "result achieved", the fact is that neither the US nor--in this case--the French was able to hold to its maximum position without risking broader and possibly more important objectives.

8. In any case, it may be as bad to be half wrong as wholly wrong, and in the personal opinion of the undersigned, the time is fast approaching when the US should raise with itself some basic questions. Immediately prior to the agreement reached at Geneva Herter reported that the "EEC very nearly broke up over the issues presented." Is it in the US interest to run such risks, and if so, are we certain what the situation would be in Western Europe if a miscalculation should lead to the collapse of the integration experiment? It may also be asked if we are committing US prestige in Western Europe to the achievement of primary objectives, or are we wasting it too frequently on issues of lesser importance? A case in point is the tremendous effort of the past year to preserve the US market in Europe for poultry--a market which, however valuable in the past few years, is almost certain to be lost as European technology advances. One may also wonder whether, in dealing with the EEC, we have perhaps become so mesmerized by the "De Gaulle problem" that we are too eager to combat and too quick to minimize the extent of his support. Are we acting as well on the basis of excessive generalization? In US eyes, France has emerged from the Geneva encounter as the villain--Erhard, the hero. Yet, however protectionist French

farmers may be, the main obstacle to an EEC grain policy we could live with lies with Bonn, not Paris. It may be useful as well to recall that in 1958 it was France which--to our great satisfaction--blocked the emergence of a preferential European industrial free trade area, a project ardently advocated by Erhard.

9. Even though the formal opening of the Kennedy round is still a year away, there is little time for leisurely consideration of these basic issues. The trade negotiating committee established by the Geneva conference is scheduled to convene in June, and the deadline for agreement on a negotiating plan is 1 August. Although there is little prospect of early definitive consideration in GATT of a plan for agricultural negotiations, the EEC's farm policies will be established--and probably "set"--during the next year. Moreover, despite the pause since last January, the Common Market is an enterprise which is unlikely to remain indefinitely in the pupa stage.



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Postscript: A 28 May cable from the US mission to the EEC, received since the above was prepared, reports that the EEC ministers are meeting on 30-31 May to review the results of the GATT ministerial and give instructions for the necessary follow-up. According to the mission, the EEC Commission's interpretation of the agreement referred to in the last sentence of Paragraph 2 above is "fundamentally at variance with the US understanding." Ambassador Tuthill is making representations to the Commissioners and to the member-country delegations.